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SMALL BUSINESS ADVOCACY  
REPORT NO. 6

SMALL BUSINESS PAYROLL TAXES,  
1986

March, 1986

MINISTRY OF INDUSTRY,  
TRADE AND  
TECHNOLOGY  
ONTARIO





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1986

March, 1986

Prepared by Jackie Wood

Small Business Branch  
Small Business, Service Industries  
and Capital Projects Division  
Ministry of Industry, Trade and  
Technology



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## SMALL BUSINESS PAYROLL TAXES

### EXECUTIVE SUMMARY

The economic implications of payroll taxation on small businesses (firms with less than 100 employees) are examined in this study. The study was undertaken in order to obtain an updated assessment of the effects of abolishing Ontario Health Insurance Plan (OHIP) premium payments and replacing the payments with a 2% employer-paid payroll tax. This change was first examined in a 1982 Ontario budget paper.<sup>1</sup>

The first section of the paper looks at the increasing costs of government-imposed payroll taxes (unemployment insurance, Canada pension plan and workers' compensation) on a typical small business. Unlike UIC, CPP and WCB, employers are not required to pay any portion of their employees' OHIP premiums. The impact of a 2% employer-paid payroll tax on those firms not currently paying OHIP is also examined.

#### Highlights:

- . Payroll taxes increased 90.4% from 1981 to 1986.

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<sup>1</sup>The Honourable Frank S. Miller, "Ontario's Tax Structure: Options for Change: A Discussion Paper", Budget Paper, Ontario Budget 1982 (Toronto, Ministry of Treasury and Economics, 1982).



- . From 1981 to 1986, payroll taxes increased an average of 12.9% annually (well beyond the average annual inflation rate of 7.5% and average annual wage increases of 5.9% over the same period).

- . Imposition of a 2% employer-paid payroll tax to replace OHIP premiums in 1986 would cause payroll taxes to increase 43.4% in one year for young small businesses which are the source of most job creation.

The second section of the paper examines the payroll tax burden on four small businesses: a garage, a restaurant, a construction firm and a manufacturer. The impact of a 2% employer-paid payroll tax on these firms (which are not currently paying OHIP) is analysed.

In order to know how many small businesses would be effected by the extra payroll tax, SBA conducted a survey of young firms (less than three years old) and manufacturers (slightly older). The results, contained in the 3rd section of the paper, showed:

- . Only 22.5% of small firms less than three years old pay all or part of their employees' OHIP premiums.



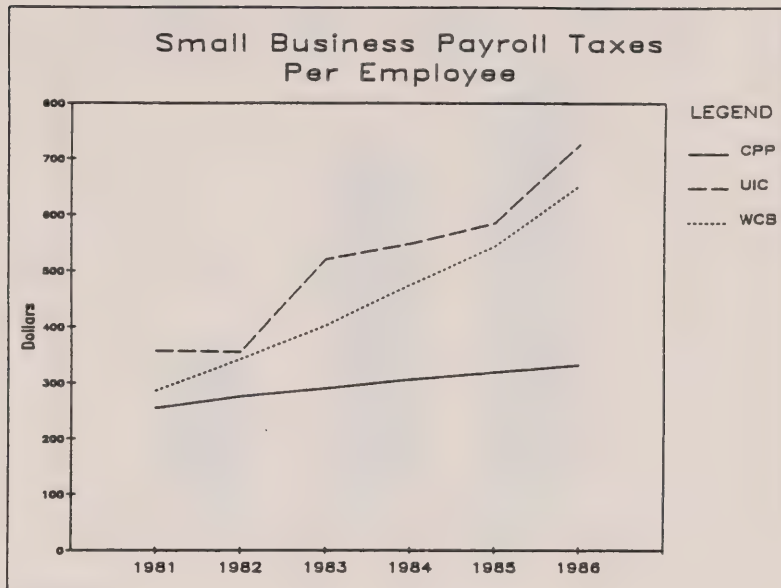


- . In comparison, 82.9% of manufacturers employing 50 to 100 people pay all or part of their employees' OHIP premiums.
  
- . 62.6% of young firms and 39.8% of manufacturers with 50 to 100 employees take into consideration the cost of payroll taxes when deciding to hire.

The survey results are included in this study.

A conclusion of the study is that payroll tax increases of 12.9% over the last five years are already a serious concern to small businesses. A new payroll tax could deter small firms from hiring and impair job creation. The study advises against the imposition of a wholly employer-paid payroll tax.



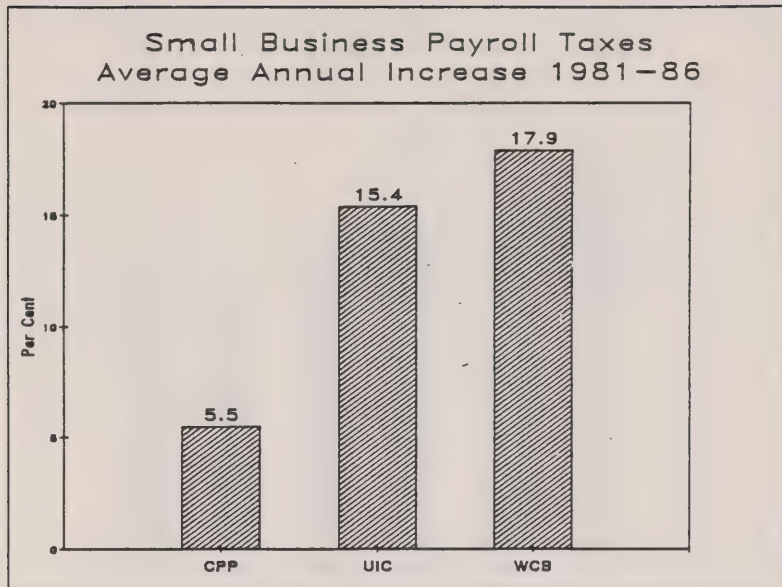


Comment:

- o Payroll taxes have increased 90.4% from 1981 to 1986.
- o Unemployment Insurance premiums have experienced the greatest annual swings (from a decrease of 0.6% from 1981 to 1982 to an increase of 46.8% the following year). This fluctuation makes any reasonable forecast of payroll expenses a difficult task for small business employers.
- o See Table 1 for details regarding payroll taxes per employee.



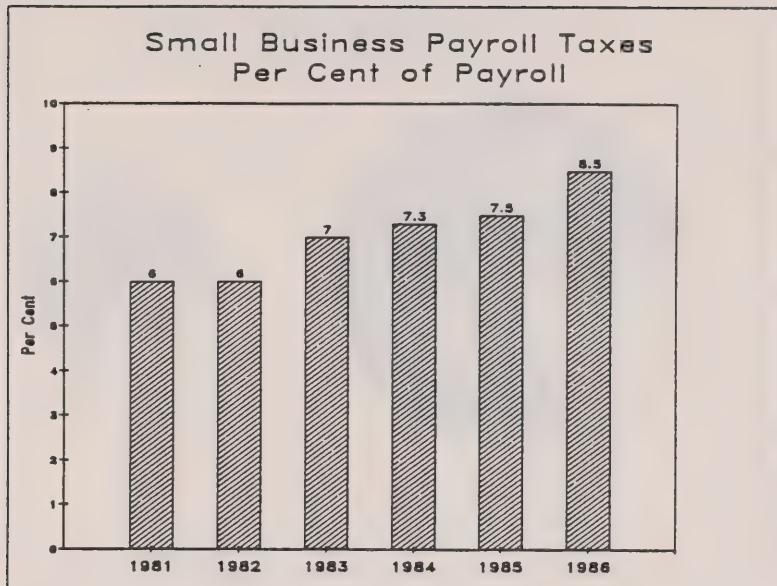




Comment:

- o See Table 2 for details regarding annual increases (1981 - 1986).

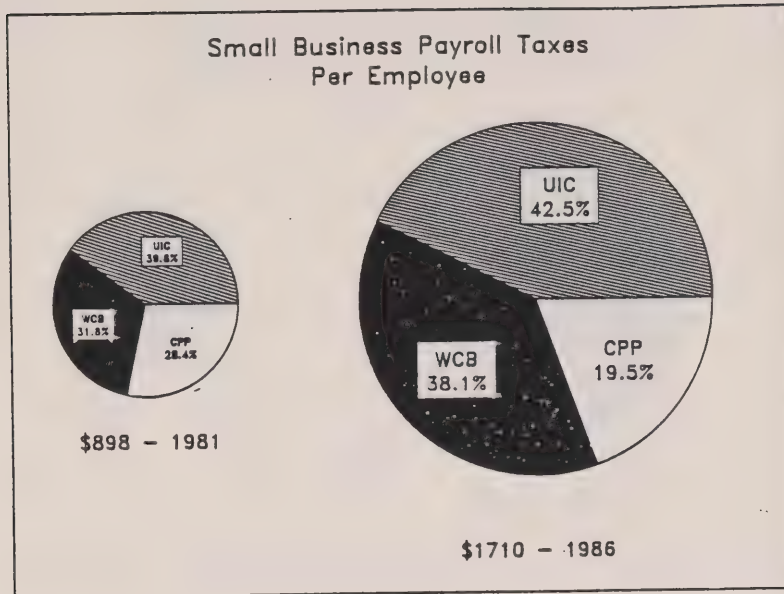




**Comment:**

- o Workers' Compensation is the main culprit behind payroll taxes' increasing portion of payroll. In 1981, WCB comprised 1.9% of payroll; it has grown to 3.2% of payroll in 1986 (an increase of 128% in five years).
- o See Tables 3 and 4 for details regarding payroll taxes' percentage of payroll.





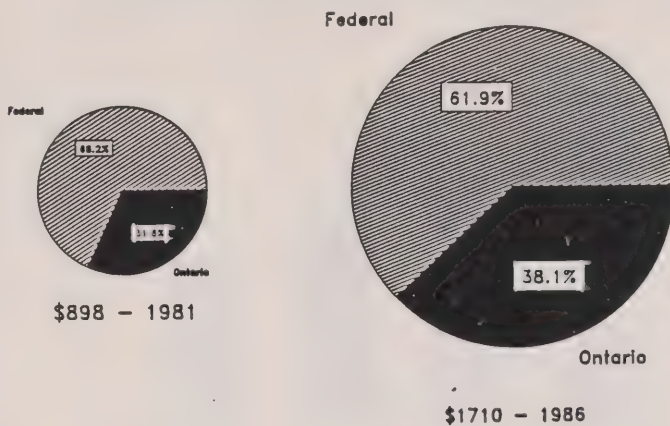
Comment:

- o The charts are proportionate.
- o Payroll taxes have increased 90.4% from 1981 to 1986.
- o See Table 1 for details regarding payroll taxes per employee.





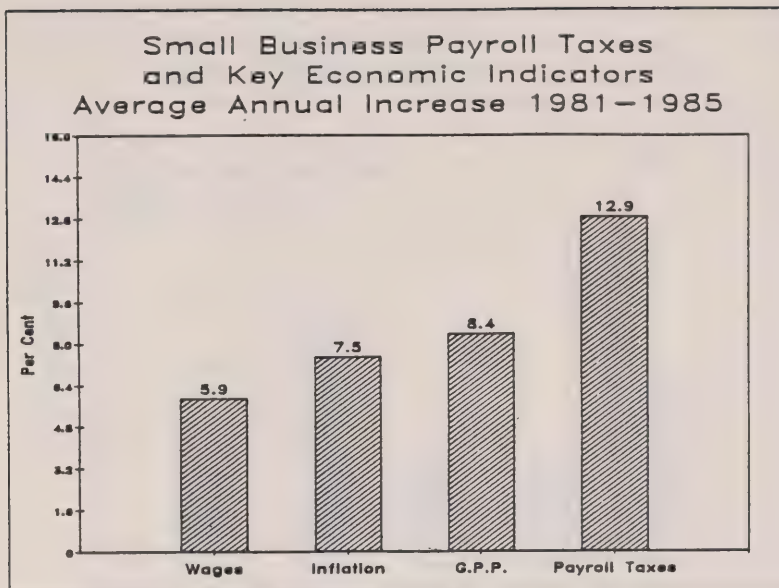
### Small Business Payroll Taxes Federal and Ontario 1981 & 1986



Comment:

- o Ontario's increasing portion of payroll taxes is due to a 17.9% average annual increase in Workers' Compensation.
- o See Table 5 for details regarding annual increases.



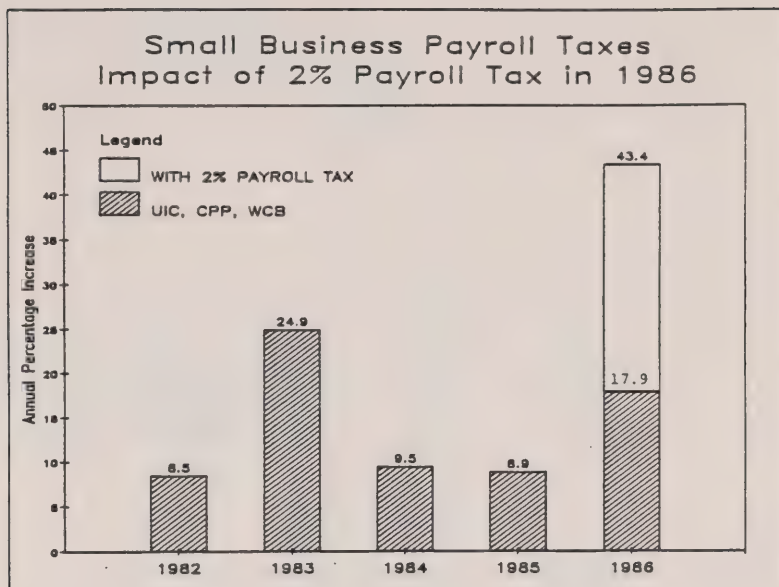


**Comment:**

- o The average annual increase in payroll taxes is almost double the rate of inflation.
- o The payroll tax burden increased substantially in the years 1981 to 1985 (61.6%) while the average wage increased by only 25.7% over the same period.







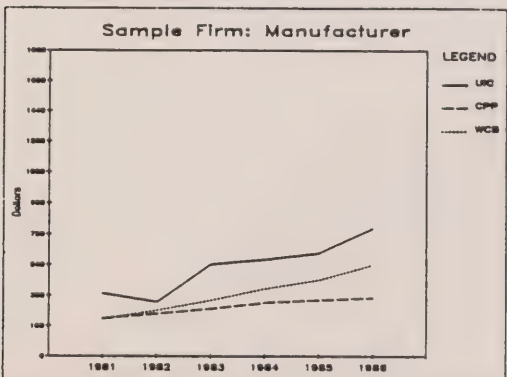
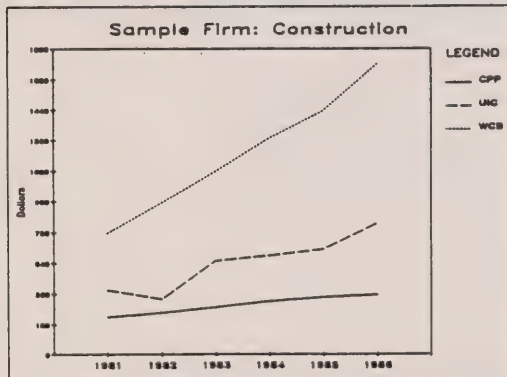
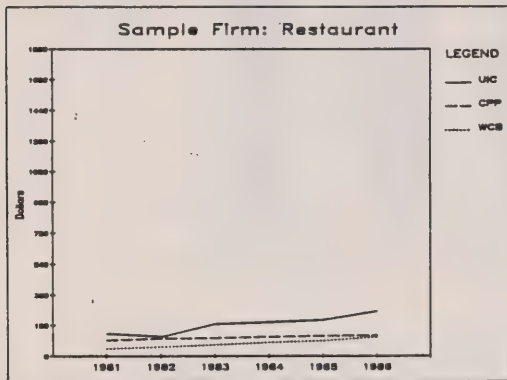
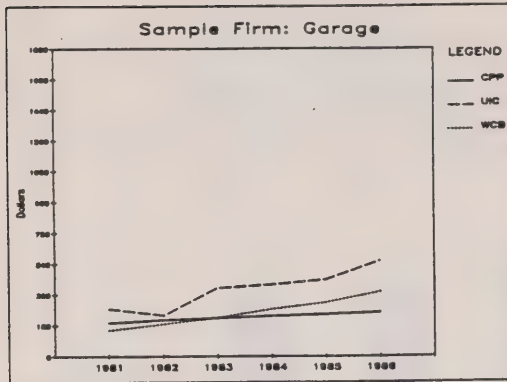
**Comment:**

- The 24.9% jump in 1982 was due mainly to a 46.8% increase in UIC.
- A 2% payroll tax on an average small business wage of \$18,517 would amount to \$370. The increase in payroll taxes from 1985's \$1451 in payroll taxes to 1986's \$2080 would therefore be 43.4%.
- A 2% payroll tax would increase payroll taxes from 7.5% of payroll in 1985 to 10.3% in 1986.
- See Table 3 regarding payroll taxes as a per cent of payroll.



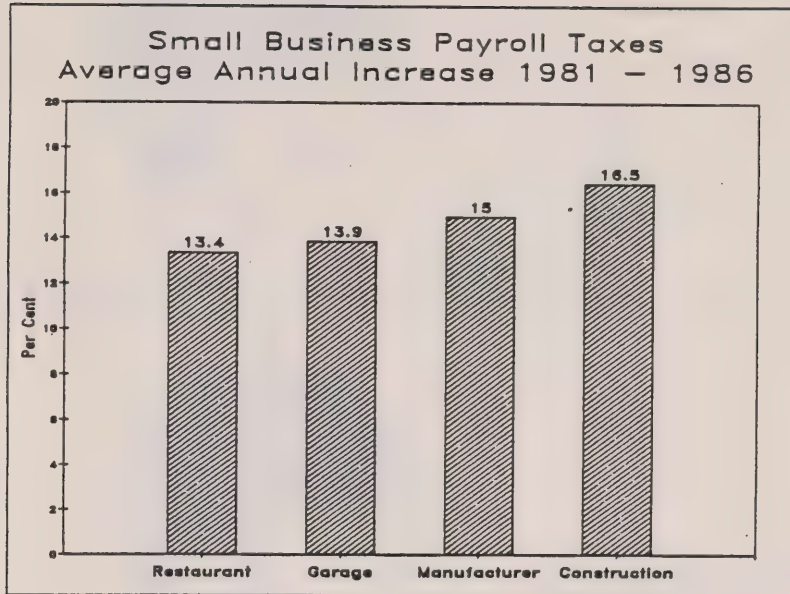
# Small Business Payroll Taxes Per Employee

- 8 -



- Restaurants pay the lowest amount of payroll taxes per employee (close to one-sixth that paid by construction firms)
- See Tables 6A, 6B, 6C and 6D for details



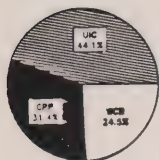


- Wages in these firms have increased an average of 5.5% from 1981 to 1986.

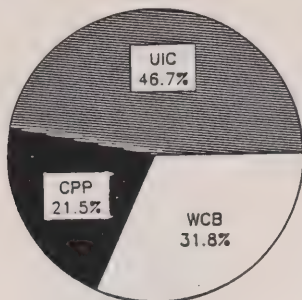


## Small Business Payroll Taxes Per Employee

Sample Firm: Garage

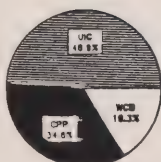


\$ 624 - 1981

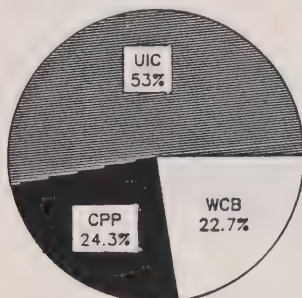


\$ 1196 - 1986

Sample Firm: Restaurant



\$ 264 - 1981

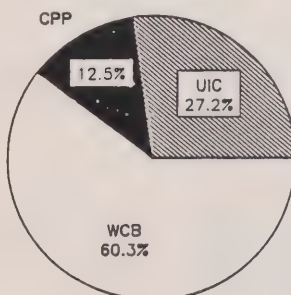


\$ 494 - 1986

Sample Firm: Construction

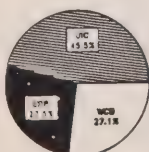


\$ 1320 - 1981

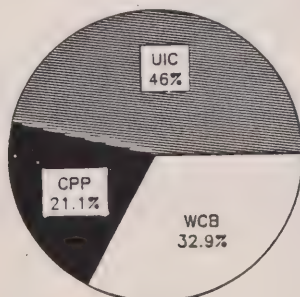


\$ 2842 - 1986

Sample Firm: Manufacturer



\$ 816 - 1981



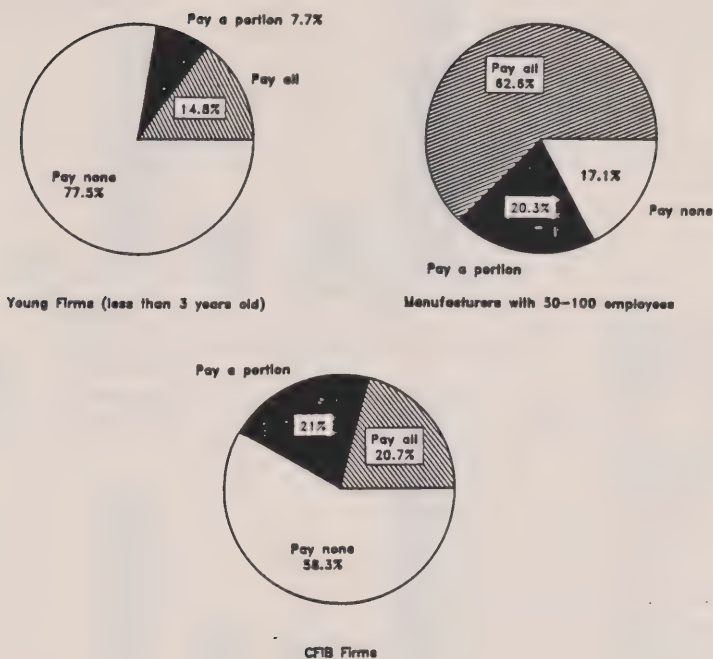
\$ 1640 - 1986

- Construction firms pay the largest portion of their payroll taxes to WCB. Construction firms' WCB rates have gone up 140% from 1981 to 1986.
- See Tables 6A, 6B, 6C and 6D for details.





## Employer OHIP Payments



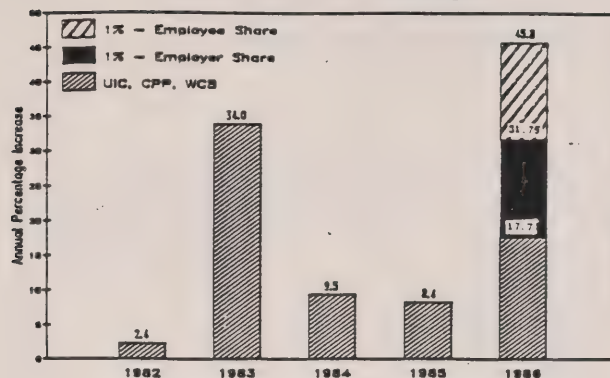
- . **Young Firms** = Small Business Advocacy Survey February 1986 of 433 young firms with 3,923 employees (average number of employees per firm - 9.1).
- . **Manufacturers** = Small Businesss Advocacy Survey February 1986 of 123 manufacturers with 8,034 employees (average number of employees per firm - 65.3).
- . **CFIB Firms** = CFIB Survey March 1983 of 4,565 member firms with approximately 72,227 employees (average number of employees per firm - 15.8). CFIB firms are older and larger than the young firms.
- . A majority (77.5%) of young firms do not pay any portion of their employees' OHIP premiums. Only 17.1% of manufacturers do not pay any portion.
- . A majority (62.6%) of manufacturers pay all their employees' OHIP premiums. Only 14.8% of young firms pay all.



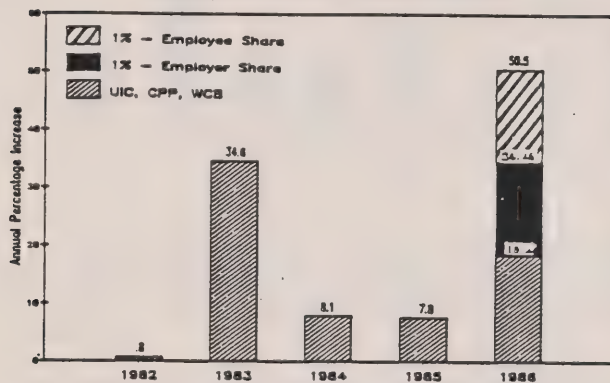
# Small Business Payroll Taxes Impact of 2% Payroll Tax in 1986

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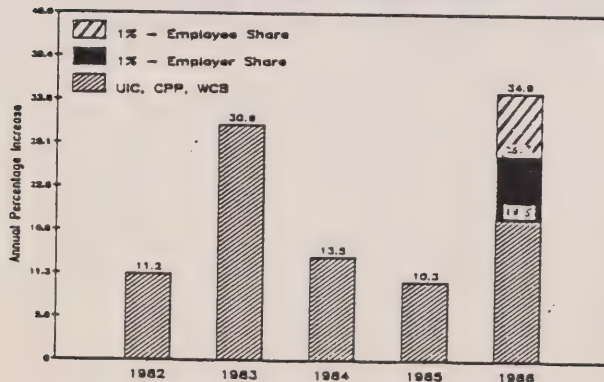
Sample Firm: Garage



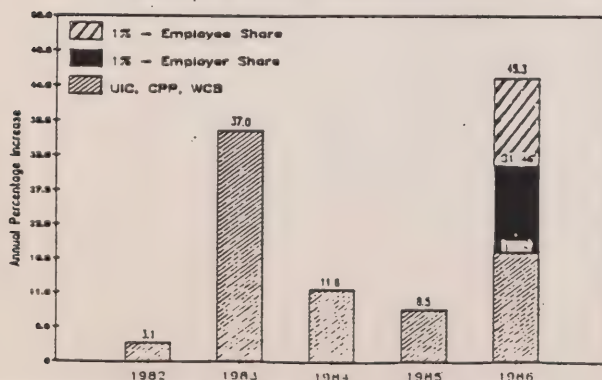
Sample Firm: Restaurant



Sample Firm: Construction



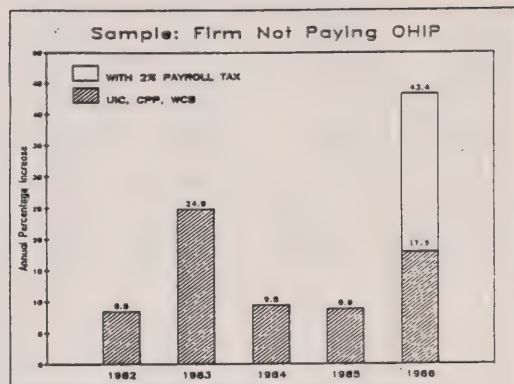
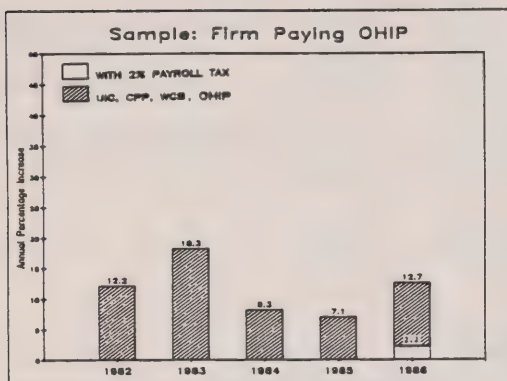
Sample Firm: Manufacturer



- These firms are not paying their employees' OHIP premiums.
- These firms will experience an increase in payroll taxes ranging from 17.6% to 18.5% in 1986.
- If a 2% wholly employer-paid payroll tax is implemented, an increase ranging from 34.9% to 50.5%.
- If a shared employer-employee-paid payroll tax is implemented, the increase will range from 26.7% to 34.5%.
- See Tables 6A, 6B, 6C and 6D for details.



# Small Business Payroll Taxes Impact of 2% Payroll Tax in 1986



For firms currently paying OHIP, the forecast increase in UIC, CPP, WCB and OHIP is 12.7%. If a 2% employer-paid payroll tax is implemented, these firms will experience an increase of only 2.2%.

For firms not currently paying OHIP, the forecast increase in UIC, CPP and WCB is 17.9%. If a 2% employer-paid payroll tax is implemented, these firms will experience an increase of 43.4%.



TABLE 1

SMALL BUSINESS PAYROLL TAXES  
IN ONTARIO PER EMPLOYEE, 1981-1986<sup>1</sup>

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Unemployment Insurance	\$ 357	\$ 355	\$ 521	\$ 549	\$ 586	\$ 726
Canada Pension Plan	255	276	291	307	320	333
Workers' Compensation	286	343	404	476	545	651
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	\$898	\$974	\$1,216	\$1,332	\$1,451	\$1,710

TABLE 2

ANNUAL PERCENTAGE INCREASES IN SMALL BUSINESS  
PAYROLL TAXES IN ONTARIO, 1981-1986<sup>1</sup>

	<u>1981- 1982</u>	<u>1982- 1983</u>	<u>1983- 1984</u>	<u>1984- 1985</u>	<u>1985- 1986</u>	<u>Average 1981-1986</u>
Unemployment Insurance	(0.6)	46.8	5.4	6.7	23.9	15.4
Canada Pension Plan	8.2	5.4	5.5	4.2	4.1	5.5
Workers' Compensation	19.9	17.8	17.8	14.5	19.5	17.9

<sup>1</sup>Actual costs for 1981-1985; estimated for 1986

Source: Small Business Advocacy, 1986





TABLE 3

SMALL BUSINESS PAYROLL TAXES  
IN ONTARIO PER EMPLOYEE, 1981-1986<sup>1</sup>  
AS PERCENTAGE OF PAYROLL

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Unemployment Insurance	2.4	2.2	3.0	3.0	3.0	3.6
Canada Pension Plan	1.7	1.7	1.7	1.7	1.7	1.7
Workers' Compensation	1.9	2.1	2.3	2.6	2.8	3.2
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	6.0	6.0	7.0	7.3	7.5	8.5

TABLE 4

INCREASE IN SMALL BUSINESS PAYROLL TAXES  
IN ONTARIO  
PER EMPLOYEE, 1981-1986<sup>1</sup>

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Average Wage	\$14,167	\$15,352	\$16,188	\$17,059	\$17,805	\$18,517
Payroll Taxes Per Employee	898	974	1,216	1,332	1,451	1,710
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Payroll (Salary & Payroll Taxes)	\$15,065	\$16,326	\$17,404	\$18,391	\$19,256	20,227
Payroll Taxes as % of payroll	6.0	6.0	7.0	7.2	7.5	8.5

Actual costs for 1981-1985; estimated for 1986

Source: Small Business Advocacy, 1986



TABLE 5  
PROVINCIAL VS. FEDERAL GOV'T IMPOSED SMALL BUSINESS  
PAYROLL TAXES PER EMPLOYEE, 1981-1986<sup>1</sup>

	1981		1982		1983		1984		1985		1986	
	\$	Per Cent	\$	Per Cent	\$	Per Cent	\$	Per Cent	\$	Per Cent	\$	Per Cent
eral	612	68.2	631	64.8	813	66.9	856	64.3	906	62.4	1,059	61.9
vincial	286	31.8	343	35.2	404	33.1	476	35.7	545	37.6	651	38.1
	898	100.0	974	100.0	1,217	100.0	1,332	100.0	1,451	100.0	1,710	100.0

ual costs for 1981-1985; estimated for 1986

ce: Small Business Advocacy, 1986



**TABLE 6A**  
**SMALL BUSINESS PAYROLL TAXES**  
**IN ONTARIO PER EMPLOYEE, 1981-1986<sup>1</sup>**

**SAMPLE FIRM: GARAGE<sup>2</sup>**

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Average Wage	\$10,916	\$11,829	\$12,473	\$13,144	\$13,719	\$14,267
Unemployment Insurance	\$275	\$237	\$402	\$423	\$451	\$559
Canada Pension	\$196	\$213	\$225	\$237	\$247	\$257
Workers' Compensation	\$153	\$189	\$229	\$277	\$318	\$380
 Total Payroll Taxes	 \$624	 \$639	 \$856	 \$937	 \$1,016	 \$1,196
Total Payroll (Wage & Payroll Taxes)	\$11,540	\$12,468	\$13,329	\$14,081	\$14,735	\$15,463
 Payroll Taxes as % of Payroll	 5.4	 5.1	 6.4	 6.7	 6.9	 7.7

<sup>1</sup>Actual costs for 1981-1985; estimated for 1986

<sup>2</sup>Standard Industrial code #658  
Workers' Compensation Board Rate #315

Source: Small Business Advocacy, 1986



TABLE 6B  
 SMALL BUSINESS PAYROLL TAXES  
 IN ONTARIO PER EMPLOYEE, 1981-1986<sup>1</sup>

SAMPLE FIRM: RESTAURANT<sup>2</sup>

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Average Wage	\$5,113	\$5,540	\$5,842	\$6,156	\$6,425	\$6,682
Unemployment Insurance	\$129	\$111	\$188	\$198	\$211	\$262
Canada Pension	\$92	\$100	\$105	\$111	\$116	\$120
Workers' Compensation	\$43	\$55	\$65	\$78	\$90	\$112
Total Payroll Taxes	\$264	\$266	\$358	\$387	\$417	\$494
Total Payroll (Wage & Payroll Taxes)	\$5,377	\$5,806	\$6,200	\$6,543	\$6,842	\$7,176
Payroll Taxes as % of Payroll	4.9	4.6	5.8	5.9	6.1	6.9

<sup>1</sup>Actual costs for 1981-1985; estimated for 1986

<sup>2</sup>Standard Industrial code #886  
 Workers' Compensation Board Rate #898

Source: Small Business Advocacy, 1986





TABLE 6C

**SMALL BUSINESS PAYROLL TAXES  
IN ONTARIO PER EMPLOYEE, 1981-1986<sup>1</sup>**

**SAMPLE FIRM: CONSTRUCTION<sup>2</sup>**

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Average Wage	\$15,078	\$16,340	\$17,229	\$18,156	\$18,950	\$19,708
Unemployment Insurance	\$380	\$327	\$555	\$585	\$623	\$772
Canada Pension	\$224	\$250	\$282	\$317	\$341	\$355
Workers' Compensation	\$716	\$891	\$1,080	\$1,274	\$1,435	\$1,715
 Total Payroll Taxes	 \$1,320	 \$1,468	 \$1,917	 \$2,176	 \$2,399	 \$2,842
Total Payroll (Wage & Payroll Taxes)	\$16,398	\$17,808	\$19,146	\$20,332	\$21,349	\$22,550
 Payroll Taxes as % of Payroll	 8.1	 8.2	 10.0	 10.7	 11.2	 12.6

<sup>1</sup>Actual costs for 1981-1985; estimated for 1986

<sup>2</sup>Standard Industrial code #404  
Workers' Compensation Board Rate #854

Source: Small Business Advocacy, 1986



TABLE 6D

SMALL BUSINESS PAYROLL TAXES  
IN ONTARIO PER EMPLOYEE, 1981-1986<sup>1</sup>

SAMPLE FIRM: MANUFACTURER<sup>2</sup>

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Average Wage	\$14,725	\$15,957	\$16,826	\$17,731	\$18,507	\$19,247
Unemployment Insurance	\$371	\$319	\$542	\$571	\$609	\$755
Canada Pension	\$224	\$251	\$281	\$317	\$333	\$346
Workers' Compensation	\$221	\$271	\$328	\$397	\$452	\$539
Total Payroll Taxes	\$816	\$841	\$1,151	\$1,285	\$1,394	\$1,640
Total Payroll (Wage & Payroll Taxes)	\$15,541	\$16,798	\$17,977	\$19,016	\$19,901	\$20,887
Payroll Taxes as % of Payroll	5.3	5.0	6.4	6.8	7.0	7.9

<sup>1</sup>Actual costs for 1981-1985; estimated for 1986

<sup>2</sup>Standard Industrial code #331  
Workers' Compensation Board Rate #228  
(Manufactures small electrical appliances)

Source: Small Business Advocacy, 1986



TABLE 7

## EMPLOYER-PAID OHIP

	Young Firms (less than 3 years old)	Manufacturers with 50 to 100 employees
Percentage of firms paying all their employees' OHIP	14.8	62.6
Percentage of firms paying a portion	7.7	20.3
Percentage of firms paying none	<u>77.5</u>	<u>17.1</u>
	100.0	100.0

TABLE 8

EFFECT OF EXISTING PAYROLL TAXES  
ON HIRING DECISIONS

	Young Firms (less than 3 years old)	Manufacturers with 50 to 100 employees
Percentage of firms which consider payroll taxes when hiring	62.6	39.8
Percentage of firms which do not consider payroll taxes when hiring	37.4	60.2
	<u>100.0</u>	<u>100.0</u>

Source: Small Business Advocacy Survey, 1986

- 431 young firms (less than 3 years old) - 3,923 employees (average number of employees per firm - 9.1)
- 123 manufacturers with 50 to 100 employees - 8,034 employees (average number of employees per firm - 65.3)





